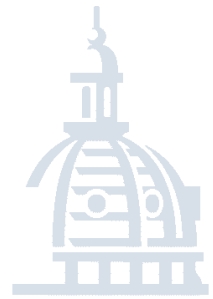


Fiscal Note

Fiscal Services Division



HF 333 – Prevailing Wage (LSB1573HV)

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Fiscal Note Version – New

Description

House File 333 requires a contractor to pay workers the same hourly wage plus fringe benefits for a public improvement as the contractor would pay workers for a private construction or improvement project. The Bill allows the hourly wage rate to be based on what is normally paid in the area by contractors for similar projects, and to be adjusted on an annual basis by the Iowa Department of Workforce Development (IWD). Contractors are prohibited from paying less than the established prevailing wage, but may pay more, and cannot include deductions for food, sleeping quarters, use of tools, or safety equipment. The Bill includes specific criteria, such as cost of the public improvement and the population of the city or county, for the project to qualify for the prevailing wage rate.

The Iowa Labor Commissioner determines the wage rates for specific geographical areas and for specific crafts, classifications, and types of workers. This information must be posted on the Department of Workforce Development's (IWD's) website. In determining what the wage rate for a worker is, the Commissioner may consult collective bargaining agreements, wage rate determinations for federal projects in the same area, and other information the Department receives from contractors that participate in an apprenticeship program approved by the Federal Bureau of Apprenticeship and Training. The wage rate must be included in all bids on public projects, and the bid must include the wage rate to be paid for each craft, classification, and type of worker.

The Bill establishes an administrative process for appeal of the IWD established prevailing wage. Appeal of a decision by the Department of Workforce Development will be heard by an Administrative Law Judge of the Department of Inspections and Appeals and is subject to Judicial Review.

Contractors and subcontractors are required to retain accurate records of all workers employed on a public improvement project, and are required to post the wage rates for each type of worker at an accessible location at the site of a public improvement. Additionally, the Bill establishes fines and creates a new serious misdemeanor for contractors and subcontractors not complying with the requirements of the Bill.

The Bill exempts public improvements for horizontal transportation infrastructure, which includes but is not limited to roads and streets. These projects are subject to the Federal Davis-Bacon Act.

Assumptions

Correctional and Fiscal Information

- This Bill could potentially affect the salaries paid to construction workers on most public projects. While the exact dollar amount is not known, it could cost the State, local governments, and school districts 10% - 40% more for labor costs on construction projects. This cost range was developed based on the information provided by the following entities:

Entity Reporting	Estimated increase in labor or project costs
Ia. State Association of Counties	10% - 20% increase in project costs.
Board of Regents (2007 estimate)	10% increase in project costs.
Ia. Association of School Boards	10% increase in labor costs.
Community Colleges	20% - 36.3% increase in labor costs.
Department of Transportation	Covered by Davis-Bacon Act, no estimate provided for new facilities.
Dept. of Administrative Services	Did not submit an estimate.
League of Cities	Did not submit an estimate.

- Typically, labor comprises 25% – 40% of construction contracts. If the total project cost was \$100,000 and of that amount, labor costs \$25,000, and prevailing wage increased the labor costs 20% (\$5,000), this would result in an increased contract cost of 5%.
- A review of studies in other states indicate a wide variation in estimated labor cost increases, ranging from no effect (Indiana study 1990) to an increase in costs of 20% (Kentucky study 2006). The Congressional Budget Office has estimated that the repeal of the Davis-Bacon Act would save an estimated 1.7% in construction costs.
- The IWD estimates a need for 9.0 FTE positions to administer the requirements of the prevailing wage law. The Department estimates \$891,000 in FY 2009 and \$700,000 in FY 2010. This analysis assumes that not all staff for the program will be hired upon enactment and reduces personnel costs for FY 2009 by 25.0% due to a lag in hiring. However, this Bill takes effect upon enactment. Assuming enactment occurs by April 1, 2009, and all staff could be hired immediately, the FY 2009 cost of salaries estimated at \$650,000 for a full year would likely be reduced by 75.0% resulting in an estimated cost in FY 2009 of \$162,500 for salaries and \$241,000 of one-time costs for a new computer application and other costs related to the new program.
- The Board of Regents estimates a need for \$480,000 and 6.0 FTE positions to administer the requirements for the public body that is paying for the public improvement
- There would be minimal appeals of the IWD determined prevailing wage for a project. Surrounding states have had only one or two per year resulting in minimal costs.
- All government bodies involved with a public improvement project will monitor the project to ensure that the prevailing wage is being paid, and that contractors and subcontractors are meeting all the requirements of the Bill.
- Construction wages for projects, especially in rural areas, will likely increase due to the Bill. Impacts of prevailing wage in other states indicate the increase can vary considerably. Studies indicate that urban areas experience smaller impacts than rural areas.
- Wage increases will also result in an increase in income tax and sales tax.
- The annual number of vertical infrastructure projects is approximately 1,000 and the number of civil road, building, and utility projects is estimated to be approximately 2,000.

- Contractor and subcontractor costs will increase due to the amount of reporting and maintenance of records required under the Bill.
- According to the University of Missouri-Kansas City, only 55% of workers in the construction industry have access to health insurance. IWD data shows that approximately 69,000 Iowans are employed in construction, with approximately 31,000 potentially without access to insurance.

Summary of Impacts

Correctional Impact

The average State cost for one serious misdemeanor conviction ranges from \$180 (court costs) to \$5,600 (court costs including a jury, indigent defense, and prison). The maximum costs will be incurred across multiple fiscal years while the offender is supervised in the correctional system, either in prison or the community. However, it is unlikely that a business would be charged.

Fiscal Impact

Total cost to the State General Fund is estimated at \$524,000 for FY 2009 and \$1.2 million for FY 2010 and subsequent years to fund costs estimated by the IWD and the Board of Regents. Other potential costs, revenues, and savings are possible, but cannot be estimated. Specifics include:

- Construction cost estimates by the Iowa State Association of Counties, the Iowa Association of School Boards, Community Colleges, and the Board of Regents all indicate a median estimate in the range of 10.0% to 20.0% increase in project costs due to a prevailing wage increase. Studies from other States have shown a 10.0% to 12.0% increase. The LSA does not have copies of the contracts and therefore cannot identify the wage rates paid on the various contracts, so no analysis has been conducted to determine the likely actual cost increases.
- All public entities with a public improvement project will have related costs of monitoring contractor and subcontractor wage payments and other required activities. Some may be able to absorb these with current staff. However, if multiple projects are in process by a public body, additional staff may be required.
- In 2007 the Master Builders of Iowa estimated that for each public contract the administrative costs to the contractors and subcontractors would be approximately \$17,000. For contractors that participate in Davis-Bacon Act covered contracts the increased amount may be less as similar recordkeeping is already required and they would have the process already in place to handle it. This may result in a need for additional staff for some contractors.
- The increase to income tax and sales tax receipts due to increased wages cannot be estimated.
- If Iowans working in the construction industry do receive health insurance because of working on a project requiring prevailing wage, or decide to purchase health insurance, the State may see some savings in costs of providing services to the uninsured.

Sources

Department of Workforce Development
 Department of Inspections and Appeals
 Department of Education
 Board of Regents
 Iowa State Association of Counties

Department of Public Safety
Department of Administrative Services
Iowa State Association of School Boards
Department of Corrections
Department of Transportation
Criminal and Juvenile Justice Planning Division
University of Missouri-Kansas City
Iowa Association of Community College Trustees

/s/ Holly M. Lyons

February 19, 2009

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to [Section 2.56](#), Code of Iowa. Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.
